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UNCLAS SECTION 01 OF 02 KUWAIT 000814

SIPDIS

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TAGS: ENRG EPET
SUBJECT: KUWAIT DEVELOPING FOURTH REFINERY AT AL-ZOUR AMID ALLEGED BIDDING CONTROVERSY

Summary

¶1. (U) Kuwait National Petroleum Company (KNPC) is moving forward with plans to build the $15 billion Al-Zour oil refinery in southern Kuwait despite concerns from the National Assembly's Petitions and Complaints Committee. In May 2008, KNPC awarded $10.4 billion in contracts to four South Korean companies, one Japanese firm, and one American company. According to the Petitions and Complaints Committee, there are alleged financial irregularities with at least one of the contracts. The Committee is requesting a freeze on all future deals and a review of "questionable" past contracts. The addition of Al-Zour coupled with upgrades to two additional Kuwaiti refineries -- Mina Abdullah and Mina Ahmadi -- aims to increase Kuwaiti refining capabilities from 930,000 barrels per day (bpd) to 1.415 million bpd by 2012. End summary.

Background on Al-Zour

¶2. (U) KNPC announced in August 2006 that it was looking for foreign partners to participate in the establishment of a fourth refinery in Al-Zour. The refinery will be one of the world's largest (615,000 bpd) and will replace the aging Shuaiba plant (capacity 200,000 bpd.) The addition of Al-Zour coupled with upgrades to two additional Kuwaiti refineries -- Mina Abdullah and Mina Ahmadi -- aims to increase Kuwaiti refining capabilities from 930,000 bpd to 1.415 million bpd by 2012. The Kuwaiti budget for the project grew from $6.3 billion in May 2007 to $15 billion in July 2008. According to GOK officials, the rising budget costs reflected the increased cost of construction materials resulting from growing oil sector investments globally. The change in budget will also delay the completion of the project from 2010 to ¶2012.

¶3. (U) In December 2007, a variety of international companies from the U.S. (Foster Wheeler and Fluor Corporation), Australia, France, Italy, Japan, Saudi Arabia, Singapore, South Korea, and the UAE submitted tenders for the six proposed projects covering engineering, procurement, tank farms, marine works, and utilities. In May 2008, the contracts were awarded to Japan's JGC Corporation and South Korea's GS Engineering and Construction ($4 billion), South Korea's SK Engineering and Construction ($2 billion), South Korea's Daelim Industrial Company ($1.2 billion), and South Korea's Hyundai Engineering and Construction ($1.1 billion). In addition, the U.S. Fluor Corporation was awarded an off-site and utility contract ($2 billion.)

Controversy Surrounding Bidding Process

¶4. (U) The National Assembly's Petitions and Complaints Committee in July 2008 urged the Oil Ministry to freeze all future contracts due to alleged financial irregularities connected with the current bidding process. The Committee

raised concerns following meetings with the Kuwaiti agent of one of the international firms that did not receive a contract. The agent alleged that his company was pre-qualified for the bid and submitting a tender $78 million lower than the winning South Korean bids for $2.3 billion in contracts. KNPC argued that cost was not the sole criteria used in decision making and that the contracts were also awarded due to "other technical considerations."

¶5. (U) Press reporting as of July 16 suggests that despite continued controversy, the National Assembly supports the development of the Al-Zour refinery. The Petitions and Complaints Committee continues to call for additional scrutiny, including submitting the $2.3 billion tender to the Audit Committee, but supports the selection process and outcomes of the remaining contracts.

¶6. (SBU) Embassy comment: It is difficult to tell at this time if this is indeed a case of foul play or if Kuwaiti wasta (influence and connections) is attempting to alter the outcome of an unfavorable decision. At present, it seems as if the Petitions and Complaints Committee will continue to pursue this issue publicly until they "attain clarity on the process." Embassy will continue to follow this issue and report septel. End comment.

JONES